Building capacities and effectively mobilizing, allocating and managing budgetary resources for implementation of the 2030 Agenda

Summary

The 2030 Agenda for Sustainable Development highlights the importance of public finance, both domestic and international, in providing fundamental services and goods. The significance of financing and its means of implementation in the pursuit of achieving the Sustainable Development Goals was underscored in the Addis Ababa Action Agenda and emphasized further in various discussions at the United Nations, including at the Economic and Social Council. The author aims to elaborate on the role of Governments and institutions to effectively mobilize, allocate and manage budgetary resources, and build capacity in the process, with the aim of providing adequate means to support the implementation of the Goals.

With the purpose of presenting a coherent framework, the author summarizes recent historical trajectories, trends and challenges in public finance. Along with background information, lessons learned from previous national experiences and related theoretical discussions are provided, with an emphasis on the structure and efficiency of public finance.

The author discusses tax systems, policies and reforms, while acknowledging tax revenues as the main financial source for the public sector. The duty of Governments to create favourable conditions to support businesses are recalled, as well as the explicit challenge of low fiscal capacity in low-income countries. The vitality of efficiency and the effectiveness of Governments in allocating resources is stressed, while challenges such as political interference in such policies are presented. The management of resources is examined at both the micro and macro level, in addition to challenges in preventing corruption in public procurement, reporting and accounting. The possible contributions of partnerships and participation, e-governance, and sound control and audit mechanisms are described.

The present paper highlights some policy recommendations to address the above-mentioned challenges, with the aim of providing support for the successful implementation of the Goals. The key message from all the recommendations is the urgent need for governmental action with regard to improving tax systems, incorporating modern technologies where needed, promoting the use of analytical tools and data sources, facilitating change through legislation, fostering international aid for low-income countries with low fiscal capacity, implementing effective regulatory impact assessments, formulating medium-term budgetary frameworks, establishing effective public-private-civil partnerships, adopting sound anti-corruption measures and ensuring well-organized accountability mechanisms, including systems of internal and external control and audit systems in the public sector.

I. Introduction

1. The 2030 Agenda for Sustainable Development defines 17 Sustainable Development Goals with guiding principles, provisions and targets related to its means of implementation. The Agenda underscores that public finance, both domestic and international, will play a vital role in providing essential services and public goods. Goal 17 has five specific targets addressing finance; in particular target 3 highlights the need to mobilize additional financial resources from multiple sources to achieve the aspirations of the 2030 Agenda. Public administrations and institutions play essential roles not just in mobilizing but also in effectively allocating and managing public resources.

2. The Addis Ababa Action Agenda, an integral part of the 2030 Agenda, helped to contextualize the means of implementation of the Goals and targets with concrete policies and actions, reaffirming the strong political commitment of countries to addressing the challenge of financing and creating an enabling environment at all levels for sustainable development in the spirit of global partnership and solidarity. At the second Economic and Social Council forum on financing for development follow-up, held in New York in May 2017, further commitments on policies and recommendations were made to ensure the comprehensive and timely delivery of the means of implementation of the Goals.

3. Governments have committed to various actions to strengthen the mobilization, allocation and management of domestic resources and have recognized that actions are needed on many fronts. These fronts include promoting sound economic, social and environmental policies; enhancing transparency and participation in the budgeting process; ensuring the fairness, efficiency and effectiveness of tax systems; combating corruption and enhancing the transparency and accountability of the corporate sector and public administration; strengthening national oversight mechanisms; supporting national and regional development banks; and strengthening the technical, financing and technological capacity of municipalities and other local authorities.

4. The present paper is aimed at elaborating on the role of Governments and institutions to effectively mobilize, allocate and manage budgetary resources, and build capacity in the process, with the aim of providing adequate means to support the implementation of the Sustainable Development Goals.

II. Trends in public expenditure

5. After the Second World War, several developed countries started to increase public sector expenditure. This trend of growth in public expenditure continued until the early 1980s. For example, in Sweden, often considered as a social-democratic welfare State, public expenditure increased from about 20 per cent of gross domestic product (GDP) in 1950 to more than 60 per cent in 1980. In the United States of America, a liberal-democratic State, the starting base was similar but with a peak of approximately 35 per cent of GDP.[1]

6. Following this trend, it could be inferred that public expenditure would continue to grow as far as 60–80 per cent of GDP. Nevertheless, it is unlikely that this trend will endure, and some major changes may take place in public finance. The persistent

[1] Stephen J. Bailey, *Strategic Public Finance* (London, McMillan, 2003).

rise in public expenditure, among other problems related to the functioning of the State, led to the proliferation of the new public management ideology in the 1980s in countries such as Australia, New Zealand, the United Kingdom of Great Britain and Northern Ireland and the United States.[2]

7. Public expenditure to GDP ratios remained stable after the 1980s. This trend continued until the financial and economic crisis in 2008–2009. The world economy, and particularly the advanced economies, suffered deep recession in 2009. The shift of the costs associated with public finance has been referred as the "fiscalization" of the financial crisis.

8. Several measures were taken in response to the crisis, including increasing the resources of the International Monetary Fund and enhancing policy coordination between central banks on monetary policy and, to varying extents, between national Governments on fiscal policy. Central banks, including the European Central Bank, engaged in continual cuts in the interest rate to historically low levels, but coupled this with a measure on quantitative easing, which essentially increased the money supply. To achieve this, central banks would buy assets such as government and corporate bonds with money they had created themselves. Financial institutions, through selling assets, would then earn money that had been created by the central bank, thus increasing the overall money supply. In effect, this resulted in fiscal stimulus. The purpose was to boost the economy with fiscal stimulus through borrowing and quantitative easing. These measures would not be considered as classical Keynesian fiscal stimulus, however, since much of the money supply was created to help failing firms and the financial sector instead of to stimulate investment.

9. Massive government interventions were put in place to cope with the consequences of the economic crisis, such as decreasing governmental revenues during the economic crisis, along with long-term factors causing the unsustainability of public finance systems, such as pending pension reforms and increasing health-care expenditure, thus resulting in massive fiscal imbalances. Greece was the first case in which the situation became critical, which could be attributed to the condition of its public finances before the crisis. Some other countries experienced similar challenges.

10. Most Governments reacted in the first phase, while they were still in recession, by increasing taxes and decreasing expenditure. Yet, a standard countercyclical fiscal policy refers to reducing spending and raising taxes during a boom period, and increasing spending and cutting taxes during a recession.

11. On the expenditure side, a majority of the measures were in the form of lump sum (cross-sectional) expenditure cuts, which produced short-term results, while for the most part efficiency improvement measures that could produce long-term results were neglected.

[2] Christopher Pollitt and Geert Bouckaert, *Public Management Reform: A Comparative Analysis — New Public Management, Governance, and the Neo-Weberian State* (Oxford, United Kingdom, Oxford University Press, 2011). Available at https://doi.org/10.1177/0020852312437323.

III. Allocation and management of public expenditure

12. The scope and structure of public expenditure and its impact on economic growth and socioeconomic development have been the subject of theoretical discussions of economic science since its inception and have yet to become obsolete in today's context. The results of such studies indicate in general that the issue is not so much about the sum of expenditures but their structure and efficiency.

13. One idea concerning public finance is the necessity to shrink the size of the State. The argument is based on simple analysis through data and figures relating to GDP and the ratio of public expenditure to GDP. Even though a technical interpretation of such analysis may conclude that the most productive countries should have or need to have a small public sector, such simplification should not be accepted as a rule.

14. Regarding the structure of public expenditure, studies devoted to the efficiency of public spending in certain public sectors, in particular the educational and health sectors, point to the importance of such expenses in relation to socioeconomic development, but only to a certain extent. Their results demonstrate that the relation between public expenditure and socioeconomic development is non-linear. Beyond some threshold level of public spending, further increases in public spending result in only a small increase in socioeconomic development. For example, in education, the use of public funds to support 40 per cent of each university cohort may encourage national growth in general, but supporting 70 per cent could overburden the administration and be counterproductive, depending on the context. Existing studies also demonstrate that there is no singular uniform or optimum level of public expenditure according to the Classification of the Functions of Government.[3] At one extreme, too little expenditure limits the overall fulfilment of sustainable development and the protection of basic human rights; at the other extreme, too much expenditure could simply be ineffective.

15. Today, the world economy is no longer shrinking, but that does not imply that effective measures to mobilize, better allocate and better manage public resources are no longer relevant. Critical responses are needed to meet global public-sector challenges such as ageing and growing expenditure on health care, and to increase resilience and ensure sustainability.

16. There could also be consideration of the need for pension systems to be reformed or developed where relevant. In developing countries, the concern is to assure the provision of acceptable welfare for persons of pension age, whereas in developed countries, the rule of thumb is for pension systems to respect the basic economic precondition of their long-term viability.

17. Reforming health systems could focus on ensuring universal health coverage to all people, as committed to in the Sustainable Development Goals. Achieving such a holistic goal can be achieved through sufficient financing, and is very often possible only through a combination of public and private resources based on the principles of solidarity, health equity and the common good. There are challenges in countries where public health is predominantly supported through private resources.

18. The prevailing trends in public finance are different in developing and developed countries. It is therefore advisable to address each context separately. In

[3] More information available from the Statistics Division at https://unstats.un.org/unsd/itss/Classification-of-theFunctions-of-Government-COFOG.ashx.

developing countries, one of the main challenges is the lack of national public resources to cover the basic functions of the State and to deliver basic public services.

Challenge of low fiscal capacity in low-income countries

19. Low-income countries, especially the least developed countries, are often characterized by insufficient tax-generation capacity. There are several factors causing this situation. Low economic performance measured by GDP per capita is the key factor. World Bank data for 2016 show that there are many low-income countries with less than $500 of GDP per capita, such as Burundi, the Central African Republic, the Democratic Republic of the Congo, Liberia, Malawi and the Niger.[4] Tax evasion and ineffective tax systems can also be important contributing factors.

20. One challenge for Governments in developing countries is also to deliver allocative, redistributive and regulative functions. For example, it is neither feasible nor sustainable for a country with less than $5,000 per capita to have public health expenditure of over $3,000 per capita yearly. It is obvious that the financial base in some developing countries is not sufficient to provide basic public goods and fundamental social security.

21. Effective global development financing is thus essential in the pursuit of achieving well-functioning public finance in developing countries. The Addis Ababa Action Agenda stressed that "least developed countries, as the most vulnerable group of countries, need enhanced global support to overcome the structural challenges they face for the achievement of the post-2015 development agenda and the sustainable development goals". The least developed countries are the most vulnerable. However, despite global financing efforts, some developing countries continue to face challenges.

22. More effective and efficient development aid remains an important challenge, with inherent issues such as project duplication and high project management costs. The goal of delivering social protection and essential public services for all cannot be achieved in the developing world with public finance policies that are not sustainable, given limited internal resources and global development financing. Long-term solutions necessitate the implementation of effective national and local measures in public finance.

23. Countries will need to continue to give priority to basic services, including education, health and job creation, paying special attention to youth, women and vulnerable segments of the population. The processes for job creation could be seen as critical for tax revenues in the future.

IV. Questions relating to the mobilization of resources

A. Tax revenues as the main financial source for the public sector

24. The Committee first discussed resource mobilization in connection with the implementation of the Millennium Development Goals at its first session, in 2002, and deliberated on government expenditure data and on taxation at its third session, in 2004. Some recommendations emanating from past Committee discussions related

[4] World Bank, GDP per capita (current US$), available at https://data.worldbank.org/indicator/NY.GDP.PCAP.CD.

to the areas of tax policy and tax reform, such as determining the optimum level and structure of taxation, ensuring the efficiency of tax collection and administration, preventing tax evasion and tax avoidance, and minimizing the direct and indirect costs of taxation.

25. These areas are still relevant today. Countries need efficient and fair tax systems to raise sufficient revenue to encourage economic and social progress. There is no one-size-fits-all approach, however. In different countries, the tax structure and tax rates differ based on the national context. Local conditions and needs should be considered while respecting the redistributive role of taxes.

26. An efficient and effective tax administration is a basic prerequisite for a tax system to fulfil its potential of generating public revenue. The system of tax administration should be designed to enable the highest possible degree of voluntary taxpayer compliance, and tax laws could be administered efficiently, effectively and fairly, with the highest degree of integrity.

27. Three sets of indicators can be used when evaluating the performance of a tax system: (a) the compliance gap, i.e. the gap between actual and potential revenues; (b) administrative (direct) costs of taxation; and (c) compliance (indirect) costs of taxation.

28. The compliance gap is systematically estimated by some international organizations. For example, the most recent European Union report on the value added tax gap[5] states that 13 per cent of total expected revenue from value added taxes was lost across the economies of the European Union (excluding Cyprus), in 2015, based on available data on consumption taxes (such as value added taxes).

29. The reason for the compliance gaps may vary among countries. The main issue affecting taxation revenue is underreporting of income. Regarding consumption taxes, there are often policy gaps as a result of multiple rates and exemptions applied in different tax systems.

30. According to data from the Organization for Economic Cooperation and Development (OECD),[6] the ratio between the administrative costs of taxation and net revenue collection in OECD countries ranges from 0.29 per cent, as seen in Switzerland in 2013, to more than 3 per cent, as seen in Bulgaria in 2005. Estimates of the administrative costs of taxation should be used only for benchmarking purposes, owing to the methodological problems and volatility of tax revenues.

31. The compliance costs of taxation can only be roughly estimated, as all such calculations are based on simplifications and assumptions. Existing studies indicate that the costs for taxpayers to comply with taxation could be much higher than the actual amount of tax paid by them.[7]

32. Following the above analysis, both national and international actions are necessary to improve tax systems and tax collection. Scaling up international tax cooperation to prevent illicit financial flows and money-laundering is one of the core issues today. For example, initiatives relating to tax information exchange systems

[5] European Commission, *Study and Reports on the VAT Gap in the EU-28 Member States: 2017 Final Report* (Warsaw, Center for Social and Economic Research, 2017).

[6] Organization for Economic Cooperation and Development (OECD), *Tax Administration 2017: Comparative Information on OECD and Other Advanced and Emerging Economies* (Paris, OECD Publishing, 2017).

[7] See, for example, Juraj Nemec, Pavol Čižmárik and Vladimír Šagát, "An estimation of the compliance costs of Slovak taxation", *Economics and Management*, vol. 20, No. 2 (June 2017).

could limit tax avoidance and considerably improve the collection performance of many countries.

33. The OECD Forum on Tax Administration provided a detailed evaluation of the current situation and possible measures. Among other issues, the effective use of data, both nationally and internationally, the management of tax debt and ways of minimizing identity fraud through effective registration and identification were underscored. Some recommendations included the following: collective work on options for the sharing of information on payments made by online intermediaries in the sharing economy; the digital transformation of tax authorities using modern technologies, analytical tools and enhanced data sources; and the importance of collective work to realize the benefits of compliance, service delivery and the reduction of burdens for taxpayers.

B. Creating conditions to stimulate private sector growth

34. Private sector investment and innovation are among the major drivers of productivity, inclusive economic growth and job creation. Governments are encouraged to create an enabling environment to support competitive and inclusive businesses. One of the popular benchmarks used for this purpose is the World Bank ease of doing business estimates. The World Bank also delivers international data sets for two other indicators related to this area, that is, regulatory quality and the rule of law.

35. One precondition for a well-performing private sector is enforcement of the rule of law. The practice of retroactive pieces of legislation and laws and the prevailing trend of tailor-made laws aimed at transforming entire economic or societal sectors within a short time horizon in some countries are likely to create policy challenges in the medium to long term.

36. There is also a perennial problem of excessive regulation, also referred to as red tape. Cutting down on excessive bureaucracy in the public sector is a core issue. Effective regulation and low compliance costs are possible end results. E-governance tools may be useful for this purpose.

37. There are multiple dimensions related to the rule of law. One dimension is accountability, which implies that both the public sector and private actors are accountable under the law. Additionally, the just laws principle indicates that the laws should be clear, publicized, stable and just, which means that they should be applied equitably and protect fundamental rights, including the security of persons and property and certain core human rights.

38. Open government stands for making the processes by which laws are enacted, administered and enforced accessible, fair and efficient. Accessible and impartial dispute resolution relies on the fact that justice shall be delivered in a timely and inclusive manner by competent, ethical and independent representatives who are accessible, endowed with adequate resources and fully representative of the communities they serve.

V. Questions relating to the allocation of resources

A. Improving the allocative efficiency and effectiveness of government

39. Ensuring allocative efficiency is one of the core duties of government. Public funds should be spent for purposeful results that are connected with the role of the State in society. Nevertheless, evidence-based policymaking, systematic programming and policy evaluations are often not supported by institutional arrangements and are therefore not common practices in many countries.

40. In some countries, a majority of allocative decisions are based on political arguments and not on evidence-based policymaking processes. Typical examples are the discontinuity of government policies after a change of government and the implementation of ineffective and unnecessary policies and interventions to gain popularity without necessarily considering the broader context and public interest.

41. Governments are expected to collect and share public data and information, and to seek consultative approaches in policymaking or policy reforms. The increased availability of data, with new research and a growing public interest in policy outcomes and impacts, has given policymakers expanded abilities to determine whether public investments achieve their intended outcomes.

42. In many instances, there exist current or proposed public programmes that do not necessarily increase the overall social and economic welfare. Some countries still offer unlimited access to a free public university system. This may seem to be an ineffective public policy, as experts might suggest that financing university education should be based on a mix of public and private resources.

43. While such programmes can be popular and could bring some benefits to a large group of citizens, they may not seem to be necessary in view of limited public resources. Ideally, the social benefits of public programmes should outweigh their total direct, indirect, monetary and non-monetary costs. To assure this, all existing public programmes should be evaluated for current conditions and all proposed public expenditure should be carefully evaluated ex ante.

44. In certain scenarios, existing and proposed regulations may increase financial burdens both for the State and the private sector. This problem arises in part from a lack of regulatory impact assessments or the formal implementation of such assessments in many countries. Successive laws and amendments should not be passed based on shifts in the attitudes or interests of government ministers, but on the results of effective regulatory impact assessments.

B. Partnerships and participation

45. Partnerships, participation and trust are the key principles of modern governance, which is driven by collective interactions and cooperation among actors from the public and private sector in solving social problems.[8] Numerous terms, such as public-private-civil sector partnerships, public-private partnerships, multi-stakeholder partnerships, cooperation, co-production and co-creation are frequently used today, which indicates that the State needs partners.

[8] Christopher Pollitt and Geert Bouckaert, *Public Management Reform: A Comparative Analysis — Into the Age of Austerity* (Oxford, United Kingdom, Oxford University Press, 2017).

46. Partnership and participation should not be only concerned with service delivery or democracy, but should also have an integral place in budgeting processes on the macro and micro levels. For example, participatory budgeting is fast emerging at the local level and has delivered clear successes in some countries. The increased involvement of all partners and stakeholders in the budgeting and spending processes on all levels is an important and necessary challenge for all Governments.

47. The specific issue with public-private partnerships is that such projects are multidimensional and therefore their success or failure needs to be systematically appraised. The main factors in the success of such partnerships are the existence of an effective legal and regulatory framework, public sector preparedness to realize the partnerships, the realization of effective feasibility studies, proper risk allocation and effective mechanisms for monitoring and evaluation.

VI. Questions relating to the management of resources

A. Achieving fiscal stability

48. Many countries, both developed and developing, continue to have unsustainable public finances. Sustainability is key when managing public finances for both developed and developing countries. Borrowing is possible, but should be used predominantly for investment purposes instead of for supporting current expenditure. The sustainability of public finances, or fiscal sustainability, is the ability of a Government to sustain its current spending, tax and other related policies in the long run without threatening its solvency or defaulting on some of its liabilities or planned expenditure.

49. Governments are expected to publish a medium-term budgetary framework that is founded on credible forecasts and covers a minimum period (such as three years), within which all public organizations should operate. Yearly budgets should then be formulated in line with this medium-term budgetary framework.

B. Improving the technical efficiency of governments

50. Government actions today are not always realized in the most economical or efficient ways. Existing studies indicate the existence of large sums of wasted resources for different contextual reasons. Some of the more frequently cited examples are procurement fraud and active or passive corruption in public procurement, but there are many other examples, such as excessive drug prescriptions or redundant policy actions in health care, or redundant staff or institutions with duplicative functions in the public administration system.

51. Improved technical efficiency of government actions can be achieved through established instruments. To illustrate, some actions that Governments could consider include:

- Improving public procurement systems, since findings indicate that this source can provide an extra 1–2 per cent of GDP in the form of savings
- Implementing modern accounting systems, based on accrual approaches, providing fair data about the real economic situation of public bodies, allowing cost centre management to compare actual costs to outputs, outcomes and results

- Improving microfinancial management through effective programme performance budgeting and performance measurement
- Establishing effective public-private-civil sector partnerships
- Developing e-governance and e-government tools
- Delivering effective, modern, results-based methods of public sector control and audit.

C. Public procurement and corruption

52. The existence of inefficiencies in public procurement is, to a great extent, inevitable in modern societies. The main issue is the size and scale of corruption in public procurement.

53. The main reason for the existence of corruption in public procurement is the character and scale of the process. Public procurement expenditure in modern economies is estimated to fall within the range of 10–20 per cent of GDP. Data indicate that transitional economies spend relatively more for public procurement than developed States do.[9]

54. Public procurement expenses are mainly incurred for the purchase of goods and services, and construction. Typically, private sector suppliers prefer public rather than private entities as clients since they are considered as a safer market, meaning that the likelihood of the State paying its debt is higher than that for a private entity. Not only is public procurement less risky, it is also often of a repeatable and predictable character, which is advantageous for suppliers.

55. In some developing economies, public officials are not sufficiently paid and therefore seek alternative income to sustain their living standards. With this, private interest may outweigh public needs and the public service principle, especially in less developed public procurement systems that are not sufficiently transparent. The absence of just and effective incentives to motivate public servants to serve the public interest might lead to similar conclusions. In such situations, it is highly likely that allocative and technically efficient public expenditure will not be achieved.

56. There is normally a "volume discount" in the range of 10 per cent of list price or even more. While in private sector transactions this discount is kept by the purchaser, in public procurement transactions the associated amount rightfully belongs to the State. Very often, however, such a discount is not returned to the State coffers. States might audit this kind of behaviour by archiving official prices and making comparisons for their purchase transactions. Unfortunately, this type of corruption is still frequent and normally not reported since a simple probity audit cannot detect such corruption.

57. Another reason for corruption in public procurement relates to the fact that procurement officials and representatives of suppliers do not have incentives to report corruption. It is unlikely that either of the parties will report any behaviour infringing the law directly or indirectly and benefiting both. In cases of sophisticated public procurement corruption schemes in which corruption occurs but is not precisely against the law, only dissatisfied suppliers may have some interest in reporting the problem. Even if this is the case, suppliers will probably be reluctant to do this for

[9] Jan Pavel, *Veřejné zakázky a efektivnost* (Public procurement and efficiency) (Prague, Ekopress, 2013).

fear of having their name put on the unofficial "blacklist" and therefore losing the chance to win subsequent tenders. Under such circumstances, there is almost no chance to detect corruption in public procurement.

58. Aside from many objective and not fully eliminable reasons for the existence of corruption in public procurement, many subjective explanations also exist for why corruption might flourish. The most important of them are as follows:

- Underdeveloped legal environment or gaps in legislation at both the national and local government levels
- Absence of guidelines and standard forms to report corruption
- Lack of experience of all actors of public procurement processes
- Outdated public financial management methods and tools, or insufficient use of project management methods and approaches in public procurement
- Lack of interest of the public in public procurement problems
- Underdeveloped market environment
- Outdated public financial audit methods, especially the dominance of probity audit methods and the lack of value-for-money audit processes
- Bureaucratization of procurement systems, which may result in a preference for the lowest price selections, including for services and work
- Lack of political support for clean procurement.

59. The most obvious inference from all of this is that savings in public procurement of at least 10 to 20 per cent can be easily achieved by improving the public procurement system.

60. From a technical point of view, e-procurement and reverse e-auctions for clearly determined goods seem to deliver highly positive results in many instances.

61. A specific recommendation for improving public procurement systems in developing countries is to acknowledge that procurement is more management-related than administration-related. Public procurement should be managed more effectively for results, for example, through price benchmarking rather than by processes.

D. Government accounting and reporting

62. Most of the Governments in the European Union have moved to accrual accounting in recent years. In reality, however, there is still a mix of accounting styles and practices across States, which in turn hinders coordinated and transparent fiscal policies. Different regulations and practices also inhibit the implementation of sound fiscal policies.

63. High-quality public financial reporting that promotes transparency and accountability is critical to all Governments. The journey towards high-quality public financial information necessitates that Governments be committed to the implementation of effective financial reporting standards that comprehensively capture their financial performance.

64. According to the 2017 International Federation of Accountants, only 9 per cent of Federation jurisdictions have adopted the accrual-based International Public Sector

Accounting Standards (IPSAS) as the applicable accounting standard for all public-sector entities.[10]

E. Public financial management

65. Public financial management is not only a macroeconomic issue but also a microeconomic one: Governments and public institutions are responsible for managing their finances. Modernization of microfinancial management can be based on tools like programme and performance budgeting, full-cost accounting and cost centre accounting, performance financing and risk management.

66. Performance budgeting started more than 50 years ago and is promoted by several international organizations today. Hypothetically, if properly implemented, performance budgeting that links the funds allocated to measurable results has enormous potential. It may improve the planning processes related to public procurement, help to combat corruption via increased transparency, serve as a bridge between public bodies and citizens, support increased management efficiency and provide improved control to reorganize expenditure programmes.

67. Performance budgeting does not always succeed in the early phase of implementation, however. For example, the first attempt to implement a planning, programming and budgeting system in the United States almost failed and the project was terminated. Many developed countries have learned from first-hand negative experiences in implementing effective performance budgeting schemes.[11] At the same time, existing studies indicate that the implementation of performance budgeting today in developing countries does not deliver expected results.[12]

68. While the use of performance budgeting could be recommended to all Governments, the focus should be on its proper implementation, such that costs do not outweigh potential benefits.

69. Performance financing, namely the allocation of public resources to public and private bodies based on performance indicators, is now used in some countries to make allocation of public resources more predictable and transparent.

70. Nevertheless, existing and potential performance financing schemes always generate important widespread effects. Such schemes normally result in increased outputs, for example, more publications, more patients or more treatments, but with connected risks. Because of this, Governments are advised to use this tool only in selected areas after careful consideration.

71. Full-cost accounting delivers transparency and motivation in managing the internal resources of organizations. It helps Governments to understand the structure of costs and the behaviour of factors that influence the costs; therefore, it should be implemented in all large public sector organizations.

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[10] International Federation of Accountants, *International Standards: 2017 Global Status Report* (2017).

[11] Pieter Bleyen, "Linking budgeting to results? Evidence about performance budgets in European municipalities based on a comparative analytical model", *Public Management Review*, vol. 9, No. 7 (2017).

[12] Juraj Nemec and Nataliia Grynchuk, "Performance budgeting: capacity-building of NAPA for open local governance" (Network of Institutes and Schools of Public Administration in Central and Eastern Europe, 2017).

72. Risk management in a public-sector organization helps to identify future events or occurrences that threaten success, and helps to rate the level of risk in terms of likelihood and extent of impact. Similarly to for the instruments above, its use could be considered a standard practice in the public sector of all countries.

F. Information and communications technology and e-governance in financial management

73. E-government and information and communications technology tools have enabled innovations such as the digitalization of internal processes and services, facilitating interoperability and the "once-only" principle (i.e. information is supplied to public administrations only once regardless of origin, thereby eliminating unnecessary burdens for both public institutions and users in general), enabling contact between the State with citizens and businesses and thus promoting democracy and in general improving public sector innovation, public administration and public service delivery. Assessments of the use of modern technologies and digitalization to improve service delivery and democracy can be built upon the work that has been carried out by the European Commission Digital Economy and Society Index, in which e-government benchmark reports and a European Union innovation scoreboard are available. Other interesting comparative data are United Nations digitalization assessments, the United Nations e-Government Survey and performance data from key delivery areas such as health and education provided by OECD.

74. Innovations enabled by information and communications technology can play a vital role in increasing the technical efficiency of government actions, with their capacity to provide information, ensure transparency and decrease transaction costs.

G. Control and audit of public finances

75. Accountability mechanisms, if appropriately designed and implemented, will not only deliver intended control and audit functions, but also generate feedback loops which foster organizational learning. As a result, they may have a positive impact on public administration performance and will also support institutional renewal exercises.

76. All Governments are expected to introduce systems of internal control and audit, as well as external control and audit, in the public sector. Such internal systems should be considered in an appropriate manner.

77. The independence, mandate and organization of the supreme audit institutions should be established and protected by the constitutional and legal frameworks, and respected in practice.

78. To ensure that controls and audits have a positive impact on the functioning of the public sector, a balanced approach to ensure both compliance and performance should be adopted. Effective supervision should be in place to deal with deficiencies identified through the audits and to identify additional resources.

VII. Conclusions and recommendations

79. Although the world economy is expanding, the mobilization, allocation and management of budgetary resources remains a core public administration issue. Healthy public finances are a fundamental precondition for sustainable development.

80. The priorities connected with mobilizing, allocating and managing budgetary resources may be different, as manifested in different settings and in the situations of different countries. Some States need to recover from excessive public finance deficits and debts. Other States need to continue to strengthen their public finance systems with more effective public policies. Even the most developed countries have to deliberate carefully on the various options available for utilizing public funds in a more responsible and effective way.

81. Mobilizing budgetary resources is connected directly with good taxation and with creating favourable conditions to stimulate economic growth. For low-income countries, this dimension needs to be considered along with effective and efficient global development aid.

82. Governments could focus on improving and optimizing the level and structure of their national taxation systems, the efficiency of tax collection and administration and the prevention of tax evasion and tax avoidance, as well as on minimizing the direct and indirect costs of taxation.

83. Governments are encouraged to create a favourable environment to support fair business activities, especially through effective administration and the protection of intellectual property and rights, as well as the strengthening of the rule of law.

84. Allocating budgetary resources is directly dependent on efficient public programmes and regulations. Governments are encouraged to develop systems of regulatory impact assessments and programme assessments to ensure that public funds are well spent and public regulations are effective to the best extent, namely that their societal benefits outweigh their costs.

85. There are both macroeconomic and microeconomic dimensions to the management of budgetary resources. On a macro level, all Governments are encouraged to assure the sustainability of their public finances: their ability to sustain current spending, tax and other related policies in the long term without threatening their solvency or defaulting on their liabilities or promised expenditure. On a micro level, all Governments are encouraged to focus on the technical efficiency of public spending. The most important actions are usually connected with improving public procurement systems, public sector accounting and auditing; improving microfinancial management; developing e-government and e-services; and giving special attention to effective partnerships.